

## ABERDEEN CITY COUNCIL

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COMMITTEE	Pensions Committee
DATE	16 March 2018
TITLE OF REPORT	Internal Audit Plan 2018/19
REPORT NUMBER	IA/18/005
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

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### **1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to seek approval of the attached Internal Audit plan for 2018/19.

### **2. RECOMMENDATION**

- 2.1 It is recommended that the Committee approve the attached Internal Audit Plan for 2018/19.

### **3. BACKGROUND/MAIN ISSUES**

- 3.1 It is one of the functions of the Audit, Risk and Scrutiny Committee to review the activities of the Internal Audit function, including the approval of the Internal Audit Plan for Aberdeen City Council. However, the remit of that Committee does not extend to Internal Audit issues relating to the Pension Fund. This is reserved to the Pensions Committee.
- 3.2 The Internal Audit plan for Aberdeen City Council for 2018/19, along with the methodology for determining the areas to be reviewed, has already been approved by the Audit, Risk and Scrutiny Committee. This followed consultation with management through the Corporate Management Team.
- 3.3 The audit included in the attached plan, as well as those in previous and future plans, will help familiarise Internal Audit with the Pension Fund's control environment and governance arrangements, allowing assurance to be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for management to consider. Where appropriate, Internal Audit will obtain assurance from other sources, for example external audit, based on their work and reported outcomes.
- 3.4 Internal Audit's work will be undertaken in compliance with Public Sector

Internal Audit Standards and Aberdeen City Council's Internal Audit Charter as approved by the Audit, Risk and Scrutiny Committee on 22 June 2017.

#### **4. FINANCIAL IMPLICATIONS**

4.1 There are no direct financial implications arising from the recommendations of this report.

#### **5. LEGAL IMPLICATIONS**

5.1 There are no direct legal implications arising from the recommendations of this report.

#### **6. MANAGEMENT OF RISK**

6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. The purpose of this report is to seek approval for the Internal Audit plan.

#### **7. IMPACT SECTION**

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcomes of a review that the Committee requested Internal Audit undertake. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

#### **8. APPENDICES**

8.1 Appendix A – Internal Audit Plan 2018/19

8.2 Appendix B – Analysis of NESPF Risk Register.

#### **9. REPORT AUTHOR DETAILS**

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## Appendix A

### INTERNAL AUDIT PLAN 2018/19

### NORTH EAST OF SCOTLAND PENSION FUND

Area	Scope	Objective	Link to RR
Governance arrangements including risk management.	Governance arrangements including risk management.	To provide assurance over the governance arrangements procedures in place including risk management and performance management.	KP1 KP2

# APPENDIX B

## ANALYSIS OF RISK REGISTER

### Key

[Red]	No Previous IA Coverage
[Orange]	Some Previous IA Coverage
[Green]	Previous IA Coverage as Detailed
[Yellow]	Proposed Inclusion in IA Plan

Risk No.	Risk	Definition	NESPF Assessment of Risk	Previous Internal Audit Coverage	Proposed Inclusion in 2018/19 Internal Audit Plan	Management Comment
<b>Key Priorities</b>						
KP1	Lack of effective risk management	Failure to identify and respond to risks with the potential to impact on our ability to achieve our objectives	Medium risk. Regular review	None	Proposed review of Governance Arrangements including Risk Management and Performance Management	CMT 18.01.18: Agreed
KP2	Poor Governance	Failure to ensure the Fund has in place a sound organisational framework, identifies responsibilities, manages its systems and processes and support the Council's culture and values	Low risk. Annual review and new f/w from April15	AC1725 Pension Fund Payroll October 2017;  AC1620 Pensions Investment Strategy & Management May 2016.	Proposed review of Governance Arrangements including Risk Management and Performance Management	CMT 18.01.18: Agreed
KP3	Lack of performance measures	Failure to measure how successful we are at delivering the Pension Fund Business Plan priorities and achieving improved outcomes for our scheme members	Medium risk. Statutory and local PI's being reported.	Looked at partly in AC1620 Pensions Investment Strategy & Management May 2016 (reporting of fund managers' performance)	Proposed review of Governance Arrangements including Risk Management and Performance Management	CMT 18.01.18: Agreed
KP4	Actuarial valuation – market volatility	Increase in employer contributions to meet unfunded position	Low risk. Valuations interim and final. 2017 tbc	None	No	CMT 18.01.18: Agreed

<b>Risk No.</b>	<b>Risk</b>	<b>Definition</b>	<b>NESPF Assessment of Risk</b>	<b>Previous Internal Audit Coverage</b>	<b>Proposed Inclusion in 2018/19 Internal Audit Plan</b>	<b>Management Comment</b>
KP5	GMP Equalisation	Failure to ensure that future member benefits are calculated correctly. Audit criticism and financial loss to the Fund	Low risk. Staff appointed to do this.	None	No	CMT 18.01.18: Agreed
KP6	Annual Review of workings of Pension Board and Pension Committee	Failure to ensure effective joint working of the Pension Board and Pension Committee, not compliant with Scheme Regs and Pension Regulator requirements	Low risk. Currently being reviewed by SPPA.	None	No – current review by SPPA	CMT 18.01.18: Agreed
KP7	New Global Custody Services	Failure to manage transition between old and new custodial arrangements. Financial loss through delay in service or errors in data	Medium risk. Has its own plan and risk register, regular reporting to Cttee.	None	No	CMT 18.01.18: Agreed

Risk No.	Risk	Definition	NESPF Assessment of Risk	Previous Internal Audit Coverage	Proposed Inclusion in 2018/19 Internal Audit Plan	Management Comment
<b>Pensions Regulator Requirements</b>						
PR1	Pension Administration system failure	Staff downtime, loss of service delivery	Low risk Externally hosted and backed up	2017/18 review of Pension Systems	No	CMT 18.01.18: Agreed
PR2	Unable to access workplace	Staff downtime, loss of service delivery	Medium risk. Council's disaster recovery policy.	August 2017 – IA Report AC1804 "Business Continuity Planning"	No	CMT 18.01.18: Agreed
PR3	Overpayment of pension benefits	Audit criticism, legal challenge, reputational risk	Low risk. Supervisory and segregation controls	AC1725 Pension Fund Payroll October 2017;	No	CMT 18.01.18: Agreed
PR4	Failure to maintain member records and comply with regulations	Incorrect pension payments, incorrect assessment of actuarial liabilities	Low risk. Regular checks of employers' data	AC1725 Pension Fund Payroll October 2017;	No	CMT 18.01.18: Agreed
PR5	Failure to carry out effective member tracing	Incorrect pension payments, incorrect assessment of actuarial liabilities	Low risk. ATMOS tracing system	AC1725 Pension Fund Payroll October 2017;	No	CMT 18.01.18: Agreed
PR6	Fraud/Negligence	Overpayment, unauthorised payments, system corruption, audit criticism, reputational damage	Low risk. Supervisory and segregation controls	AC1725 Pension Fund Payroll October 2017;	No	CMT 18.01.18: Agreed

Risk No.	Risk	Definition	NESPF Assessment of Risk	Previous Internal Audit Coverage	Proposed Inclusion in 2018/19 Internal Audit Plan	Management Comment
PR7	Failure to recruit and develop staff	Reduction in service delivery, poor operation of risk management controls	Medium risk. New structure 2016, training 2017	None	Proposed review of ACC workforce planning could cover this area (in 2019/20).	CMT 18.01.18: Agreed
PR8	Fund's investments fail to deliver returns in line with anticipated returns required to meet the valuation of the long term liabilities	Increase in employer contributions	Medium risk. Regular updates and reviews to committee	AC1620 Pensions Investment Strategy & Management May 2016.	No	CMT 18.01.18: Agreed
PR9	Fall in bond yields, leading to risk in value placed on liabilities	Increase in employer contributions	Medium risk. Regular updates and reviews to committee	AC1620 Pensions Investment Strategy & Management May 2016.	No	CMT 18.01.18: Agreed
PR10	Pay and price inflation valuation assumptions either higher or lower	Increase in employer contributions	Low risk.	AC1620 Pensions Investment Strategy & Management May 2016.	No	CMT 18.01.18: Agreed
PR11	Longevity issues	Increase in employer contributions	Low risk. Actuarial assessments 3 yearly. Mentions 'strategy review to consider matching liabilities'	None	No	CMT 18.01.18: Agreed



Risk No.	Risk	Definition	NESPF Assessment of Risk	Previous Internal Audit Coverage	Proposed Inclusion in 2018/19 Internal Audit Plan	Management Comment
PR12	Employers leaving scheme/closing to new members due to cost	Residual liabilities could fall to other scheme employers	Medium risk. Monitoring and seeking 'guarantors'	None	No	CMT 18.01.18: Agreed
PR13	Failure to recover unfunded payments from employers, cross subsidy by other employers	Residual liabilities could fall to other scheme employers	Medium risk. Escalation process in place.	None	No	CMT 18.01.18: Agreed
PR14	Failure of world stock markets	Increase in employer contribution rates	Medium risk. Diversification and review.	AC1620 Pensions Investment Strategy & Management May 2016.	No	CMT 18.01.18: Agreed
PR15	Early retirement strategies by scheme employers	Pressure on cash flow	Medium. Engagement with employers	None	No – although proposed work on ACC VSER Scheme will cover this.	CMT 18.01.18: Agreed
PR16	Negligence, fraud, default by investment managers	Loss of value of the Fund, reputational damage	Low risk. Contract managed and 'audit' notices.	AC1620 Pensions Investment Strategy & Management May 2016.	No	CMT 18.01.18: Agreed

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PR17	Failure of Global Custodian	Loss of investments or control of investment	Low risk. Contract managed and 'audit' notices.	AC1620 Pensions Investment Strategy & Management May 2016.	No	CMT 18.01.18: Agreed
PR18	Failure to monitor investment managers and assets	Audit criticism, legal challenge, reputational risk	Medium risk. Regular review and reporting	AC1620 Pensions Investment Strategy & Management May 2016.	No	CMT 18.01.18: Agreed
PR19	Failure to comply with LGPS Regulations, Pensions Act, HMRC and other overriding regulations	Audit criticism, legal challenge, reputational risk, financial loss/financial penalties	Medium risk. Subject to 6 monthly compliance review	None	Proposed review of Governance Arrangements including Risk Management and Performance Management	CMT 18.01.18: Agreed
PR20	Investment options restricted by introduction of European Directive MiFIDII	Legal challenge, financial loss, increase in costs	Medium risk. Engagement, awareness and training	None	No	CMT 18.01.18: Agreed

Risk No.	Risk	Definition	NESPF Assessment of Risk	Previous Internal Audit Coverage	Proposed Inclusion in 2018/19 Internal Audit Plan	Management Comment
PR21	Potential risks and conflicts of interest between ACC and NESPF	Audit criticism, legal challenge, reputational risk	Medium risk. Regular meetings and register maintained.	None	Include testing in proposed review of Governance Arrangements (see risk KP2)	CMT 18.01.18: Agreed
PR22	Breach of Data Protection –theft or loss of data	Audit criticism, legal challenge, reputational risk	Low risk.	September 2016 – IA Report AC1707 “Data Protection” relating to ACC procedures which cover NESPF – staff have to complete ACC training.	Review of Council’s arrangements to ensure that the Council’s arrangements for GDPR compliance are adequate included in ACC IA Plan.	CMT 18.01.18: Agreed
PR23	Failure to comply with FOI requests	Audit criticism, legal challenge, reputational risk	Low risk.	None – although Audit Risk and Scrutiny Committee has requested that IA review elements of FOI and report back to Committee.	No	CMT 18.01.18: Agreed
PR24	Failure to meet annual audit deadlines	Audit criticism, legal challenge, reputational risk	Low risk.	None	No. This would be picked up by external audit.	CMT 18.01.18: Agreed
PR25	Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputational risk	Low risk. Annual review and some changes to be made.	None	No	CMT 18.01.18: Agreed
PR26	Failure to monitor employer covenants	Residual liabilities could fall to other scheme employers	Medium risk. Ongoing discussions	None	No	CMT 18.01.18: Agreed